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## THE USE OF CREDIT CURRENCY BY COUNTRY BANKS

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The country merchant was, in primitive days, the leading financial agent in his little community. He was the legitimate precursor of the country banker of to-day. His shop or "store" was the clearing house of the community for surplus farm products. He naturally became at times the custodian of a portion at least of the surplus means of the community. He opened book credits, which were usually redeemable in trade; that is to say in goods from his shelves. He sometimes issued in exchange for produce so-called "scrip" which was legitimate asset currency, issued for value, and redeemable—in goods of course—on demand. This scrip had the advantage over a book credit of negotiability in petty transactions between neighbors, and served as primitive currency.

The country bank came next, authorized by state law to issue bank notes against its own credit to a limited amount, and with the legitimate requirement that a specie reserve be kept on hand for the redemption of the notes issued. The bank note issues of those early days were very loosely supervised by the various states, and we have heard much of the abuses which occurred under a system of practically free note issue by the banks. We have heard too little, however, of the remarkable assistance rendered by these pioneer banks in the development of the country. Deposit banking as known by us was but in its infancy, and the bank note was the instrument which enabled the banker of the period to extend necessary credit to the merchant and planter, so that commerce might thrive and agriculture prosper. Of metal money there was no sufficient hoard, and but for the advent of the bank note, the rapid development of the middle West would have been impossible.

The scrip issued by the country merchant served its purpose only in an isolated community, having but little connection with the outside world. The state bank note issue had a wider circulation, but its field of usefulness was still local and provincial, as the notes were usually subject to an exasperating discount when presented at

any distance from the point of issue. The notes issued under the "Suffolk Bank" system were, it is true, redeemable at par in Boston. The genesis of the national bank note issue may yet be found in the Suffolk Bank system. It was a vast improvement over the previous experiments made by our banks of issue. It was being perfected and proven by the acid test of experience, and but for the complete demoralization wrought in our financial system by the exigencies of the Civil War, the perfect bank note might have been wrought out through gradual evolution. The principles of redemption at money centers, together with the maintenance of adequate specie reserves, might have been developed by the banks, while public sentiment might have been educated into a proper understanding of the currency question, and correct systems of state or governmental examination and regulation gradually established. Distracting elements, producing great confusion of thought concerning currency matters, were introduced by the government issues of fiat money, and the suppression of the state bank note issues, which was a war measure enacted to make way for the national bank note secured by government bonds.

It is idle to dream of building again upon a foundation that has been destroyed. If we have lost sight of the true function of the bank note since we have adopted fiat money and the bond secured bank note, we have also developed to a higher degree of efficiency than any other race or people the use of deposit banking, and of the bank check. We have also become accustomed to the use of paper money of uniform design and of uniform value, acceptable alike in the largest money centers and in the most remote hamlets. We have gradually become accustomed to a system of governmental regulation and supervision of our currency which in the mind of the average citizen is equivalent to government guarantee. No sane mind will seriously propose at this late day the issue of any currency not equally uniform in design and of equally universal acceptability. Our paper currency henceforth must be maintained at par at all hazards. It must never again be circulated at a discount as in 1867, nor should it ever again be quoted at a premium as in 1907.

The note issue function was the most profitable feature of banking in the period preceding the civil war. With the development of our present extended system of deposit banking, our banking liabilities have become expanded almost to the limit of safety, when

we consider the deposit liabilities in proportion to the total volume of actual money of redemption. Indeed, it is probable that the expansion of bank credits through deposit liabilities, stimulated as it is by active competition among the banks, and fostered by the optimistic feeling so common to the American public, has already increased bank liabilities to such an extent as will render it unwise ever again to permit the banks to enter upon an era of general bank note issues as a source of profit. We are now working under a practically rigid system of paper money issues, with the profits of note issue a negligible quantity. To permit further bank note issues in ordinary times would only incite unwise inflation of our currency and undue expansion of bank liabilities as related to coin reserves. In point of fact, our issues of paper money are already redundant. We have some \$356,000,000 of greenbacks encysted in our circulation. We prefer to permit it to remain rather than submit to the severe surgical operation necessary to its removal.

Our issue of bank notes seems to be limited only by the volume of United States bonds available for deposit to secure circulation. Any further issues of bond-secured bank notes would only induce unwise inflation. We have already in circulation as much bank note currency as the country can assimilate in normal times, and any increase in its volume would only serve to displace an equal volume of gold coin. This is a situation to be avoided, not invited. It should be our policy to strengthen our gold reserves, not to weaken them. To invite further exports of gold would only tend to further dilute a currency system which already rests upon a coin reserve sufficiently slender. It should be our policy, as it is the policy of European countries, to protect our gold reserves rather than to make the United States an open market for gold, from which all countries may draw freely at will. Our entire credit system rests upon a coin reserve sufficiently small and it is the part of prudence to strengthen our gold holdings rather than weaken them.

While we have a sufficient volume of currency to meet our requirements in normal times, unusual demands for currency, whether caused by abnormal business demands or by private hoarding proceeding from a feeling of distrust, result in conditions under which our currency supplies prove deficient. Perhaps this period of acute demand for currency has been preceded by a period of inactive demand, which resulted in the accumulation in money

centers of a plethora of currency. So much the worse for us, for this period of plenty has probably caused a loss of gold by export, for as we have no automatic way of retiring superfluous bank notes or greenbacks, we have usually contrived to ship gold as a superfluous commodity. Then when an abnormal demand for currency sets in, and we desire to recover some of the gold which has been exported, we sometimes find foreign supplies of gold more closely guarded than our own, so that we cannot bring the tide of importation of gold in our direction without making costly concessions which result in lower prices of commodities and securities, and a disturbed condition of business.

It is not a larger volume of currency which we need, but rather do we need a system which admits of some expansion and contraction other than is offered by the crude method of actual export and import of gold. The constant shifting of large sums of gold from one side of the Atlantic to the other is not only expensive, but is disturbing to the business of Europe as well as to the business of the United States. If our currency system had any measure of elasticity, we would provide for the minor changes in the demand of currency without having recourse to actual gold exports or imports. When an excess of currency accumulates in the reserve cities, a portion of our bank notes should be retired. When a demand for more notes to satisfy the demands of the crop-moving period appeared, we should be able to issue bank notes for temporary use. Thus, automatically, our hold on our stock of gold would be strengthened, and we would maintain our own reserves within control, and less often call upon the foreign money markets for aid in financing our own business requirements. Foreign money centers have complained that we too readily apply to their markets for financial assistance, and insist that we should arrange to settle our financial difficulties at home.

There is nothing automatic in the workings of our present currency laws. There must be something automatic in their operation if we wish to avoid a repetition of the currency famine of 1907. Some authority must be lodged somewhere for the issuance of an additional volume of currency when the demand for currency becomes so acute as to threaten the suspension of cash payments. This addition to the volume of money should be based upon liquid commercial assets, and should have an adequate coin reserve behind it. The banks of the country are the custodians of the best of all

liquid assets, as their credits are based upon advances covering transactions which are certain of liquidation within short periods. The sales of grain, meats, provisions, and manufactured articles in daily use liquidate credits rapidly, if time is only given for distribution from the producer to the consumer.

The banks also can acquire the coin necessary to maintain reserves against note issues, if the burden of maintaining coin reserves against bank note issues is placed upon the banks, and actual redemption of bank notes is provided for, instead of the present system of forced circulation of notes. We may not find a way at once for the retirement of the present volume of bond-secured bank notes, and they may remain with us indefinitely, always hampering our control of our own gold supplies, and rendering it all the more necessary that our reserves of gold be fully maintained. We can at least put a stop to further mischief of the same character, by avoiding the issue of any additional bonds bearing circulation privileges. Any further issues of government bonds should be issued with a view to finding a market with private investors among the people. They should not be issued with the avowed purpose of serving as a medium for the further permanent inflation of our currency, by placing them with the national banks as a basis for the permanent issue of an equal volume of practically unredeemable paper money.

The banks have both the credit and the resources necessary to provide all the currency needed for protection against such an emergency as the panic of 1907, or a much greater crisis even, if the banks are only permitted to use the undoubted resources and the credit with which we know them to be endowed.

Should the banks of the country be permitted to issue an additional volume of currency at crucial periods, and if so in what manner?

Congress by legislative action directly following the panic of 1907, has recognized that our financial difficulties of 1907 were aggravated by the non-elastic feature of our currency system. The Aldrich-Vreeland bill was enacted providing for the issue under sundry restrictions of so-called "emergency circulation" either by individual banks or by groups of banks to be organized as "National Currency Associations." The issue by individual banks still bore the time-honored requirement for the deposit of bonds to secure the

circulation thus issued. The provision for the organization of "National Currency Associations" contemplated a forced association of banks for the purpose, and did not make provision for the voluntary retirement of any bank from the association, after it had once attained membership.

Congress has also appointed a currency commission, which has investigated in an exhaustive manner the principal monetary systems of the world. It has prepared for publication various books and pamphlets bringing a study of the leading financial systems within the reach of all students of finance, but it has not yet vouchsafed any report of its deliberations. In the meantime discussions of the proposed issue of additional circulation by the banks have been general among the banking fraternity, and three several agencies have been suggested for its issuance:

First.—By the individual banks, as at present.

Second.—By clearing house associations, as through a modification of the "National Currency Association" authorized by the Aldrich-Vreeland bill.

Third.—By the organization of a Central Bank of Issue.

The question of the need for additional currency is primarily a question of cash reserves. It cannot be too often or too plainly stated that balances due from one bank to another bank are not cash reserves. Many country bankers who would have flatly denied this simple proposition in 1906 are now open to argument on the subject. The plain fact is, the country bankers do not carry cash reserves of any consequence at all. They only carry what an English banker would call "till money," and their real reserve is deposited with their city correspondent. Too often this city correspondent has redeposited the greater portion of the balance with a correspondent in a larger city, and this correspondent in turn has passed the bulk of the balance on to a yet greater financial center, until the actual cash reserve held against these duplicated deposits becomes attenuated indeed.

If the country bankers do not trouble themselves to carry an actual cash reserve of sufficient consequence to be of any avail in an emergency, but rather choose to rely upon their reserve agents in time of need, it seems that, in justice, the additional note issuing power should be given where it is most needed, to the banks which have by custom assumed the obligation to carry the country's reserves. Nor is the country banker, on the whole, inclined to be

jealous of his prerogative in the matter. The profit attendant upon note issue has already become so small that with a small volume of bank notes outstanding the country banker does not realize a profit sufficient to reconcile him to the accumulation of red-tape and detail work connected with the issue. It is recognized also that the additional circulation authorized will be so heavily taxed that it will be speedily redeemed and its issue will be more a matter of patriotism than of profit.

The banks of the reserve centers are the first to note any unusual pressure for currency. The country banker orders currency as occasion arises, from his nearest reserve correspondent, and when he has an excess of currency beyond his immediate needs, he ships the excess currency by express or registered mail to his city correspondent. Thus, in normal times, the country banker knows nothing of either a condition of scarcity of currency or of an excess of currency. He may have a surplus of loanable capital, or he may have a demand for loanable funds beyond his ability to meet these calls. When the country banker informs you that money is scarce in his section, he only means that loanable capital is scarce. If, at this juncture, a deposit of \$10,000 in currency was made at his counter, he would in all likelihood at once express the entire amount to his city correspondent. Under ordinary conditions of so-called "tight money" what he desires is the use of a bank credit against which he may draw, not actual currency or coin.

The country banker never realizes that there is any scarcity of actual money until he calls upon his reserve correspondent for a shipment of currency, and does not get it. On the other hand, the banks of the reserve centers feel at once any unusual demand for currency or coin. When their cash reserves begin to fall, they are compelled to begin to contract their loans. We are compelled at times to throw overboard valuable cargo, in order to lighten the ship so that she may ride the waves. Sometimes the cargo thrown overboard is stocks, bonds and other securities, sometimes it is grain, live stock or cotton. Is not such valuable cargo worth saving, and had we not better build a better ship, more capable of carrying the load, rather than again suffer such unprecedented losses as were occasioned by the drastic and enforced liquidation which took place in 1903, and again in 1907?

The privilege of issuing uncovered notes is evidently one which

Congress is very unwilling to grant to individual banks, and the sentiment of the people in general is in accord with Congress in this particular instance. Indeed, the privilege of issuing uncovered notes is now recognized as having such a powerful influence on the control of reserves, and even of the money market itself, that countries, like England, France and Germany, restrict the power of issue to semi-governmental banks. In our own country there is a strong disposition on the part of the minority party to insist that the government itself should issue paper money to cover special requirements of crop-moving periods, or of periods of financial stress. There is also a spirit of unwillingness to grant this power of issue to individual banks, because of the fear that some failures might occasion losses which would impair confidence in the remaining issue, notwithstanding the safety fund requirement which all advocates of this form of issue have agreed upon as necessary to provide for the redemption of the notes. There is also a feeling of unwillingness to permit the banks any additional note-issuing functions, because the people are unwilling to grant to the banks by legislation any new sources of profit. The argument that the people would share the benefits which might occur if the lending powers of the banks were enlarged, is lost upon the opponents of the so-called asset-currency idea. If it is contended that an increase in the ability of the banks to extend accommodation will through competition result in lower and less variable interest rates, it is hinted in reply that the banks would be the chief, and in fact the only, beneficiaries. We have a large number of citizens who insist that the right to issue a token of any nature intended to pass as "money" is an exclusively governmental function. This minority has always opposed on principle the note-issue privilege of the national bank act, as so-called "favoritism" of the banks. They would most strenuously oppose any extension of the privilege in new directions, as a matter of general policy. They may only become reconciled to a proposed change of this character, if strictly limited in volume, issued under most rigid governmental supervision, and with the expectation that its provisions would be of occasional application only, with the hint of an emergency requirement as a justification for its being.

Very general opposition has recently developed to the further issue of government bonds to be used as a basis for bank note circulation. One of the most important currency reforms confronting

us is the necessity for breaking away from our old traditions of the bond-secured bank note. We have followed the practice of issuing bank notes to the practical limit of the government debt until we have reached the danger point. The government must have the power to borrow, but its requirements bear no relation to the needed volume of money. The government should find a market for its bonds among the people, and the sooner this is accomplished the sooner we will have taken one proper step on the way to a proper rehabilitation of our finances.

If we contemplate a departure from the bond-secured note issue, we must make some provision to take its place. Bond security is not necessary as a basis for an absolutely safe issue of bank notes. Such issue, however, must be under strict limitations of volume, with assured facilities for redemption. A proper forethought for the future development of our banking and currency administration along sound lines would also suggest a requirement for the maintenance of adequate reserves of coin against future bank note issues.

If the banks are to be permitted to issue notes secured by their general assets only, or upon the pledge of other securities that the government bonds issues to which we have become accustomed, there seems to be a popular demand that the banks shall collectively assume the responsibility for the redemption of the notes issued. The bank guarantee plan incorporated by one of the great political parties in its last national platform, and adopted by several of the states in the Middle West, is but an echo of this feeling..

There is also a fear in the minds of many that any provision permitting the issue by the individual banks of uncovered notes, or notes secured by the general credit of the banks only, and not by the pledge of any specific collateral, would result in very general over-issue, and consequent inflation. The temptation to issue notes to the maximum amount permitted by law would be very strong to all banks in new communities where capital is yet limited, and interest rates high. Banks located where such conditions prevail would no doubt issue notes to the full limit permissible, under the act, and send such notes away from home for circulation, as there would be no real demand for the notes at home. As these notes were presented for redemption, new notes would at once be taken out in their stead. As country banks and even state banks and trust companies located

in the larger cities do not make any distinction between legal tenders and bank notes in counting their cash reserves, the bank vaults of the state banks and trust companies would soon contain only bank notes as their actual reserve. This condition would be perilous in the extreme.

But, it may be asked, would not an issue of uncovered bank notes by a group of banks be open to the same objections as an issue by the individual banks?

In answer, it may be said that a limited issue of notes only is proposed, and it is easier to exercise admonitory control of a few institutions than over a large number. If the proposed currency should be issued by clearing house groups only, we have the combined wisdom and caution of the entire clearing house as a check against over issue. The rates of interest prevailing in any clearing house center are never so high that a tax of five per cent or even four per cent would not prove a deterrent against over issue, and provide for speedy redemption, while a tax of five per cent or even six per cent would not avail against a continuous issue by banks in some newly developed sections. If the banks of any clearing house located in any reserve center may be permitted to form their own group of banks, and adopt their own regulations for the conduct of the association after it has been formed, there is no reason why all the banks of the group should not become jointly and severally liable for the notes issued. Such association, of course, would be under the control and approval of the Treasury Department but should be a voluntary association, not such an involuntary association as was provided for by the provisions of the Aldrich-Vreeland bill.

The point of attack should be made the point of defense. The calls for currency concentrate upon the banks of the reserve cities, and the weapon of defense should be placed in their hands. When currency becomes redundant, the excess accumulates in the vaults of the banks of the reserve centers. As nearly all the large banks of the reserve centers are national banks, and are compelled to keep their reserves in coin or legal tenders, the bank notes will not be held in their vaults, as in the vaults of the country banks, as so-called "reserve," but must be paid out or held as a non-productive asset. There should be provision for redemption at any sub-treasury, and the reserve banks would under such provision promptly present for redemption all bank notes which came into their possession, when

the calls for currency from the interior had been succeeded by a return flow of currency beyond immediate needs.

There are many arguments against the mutual guarantee of deposits by the banks. There are no essential objections however to the mutual guarantee of bank notes by the associated banks of any large clearing house center, provided the banks are permitted to form a voluntary organization, admitting only banks of their own selection, and framing their own rules for the government of the association. There are cogent reasons for the safeguarding of the bank note which do not apply to the protection of the ordinary depositor. The holder of the bank note should not be asked to scrutinize the credit of the issuing bank. The security should be so absolute that no such scrutiny should be required. The bank depositor occupies a different relation to the banking world. The deposit of money in a bank is a voluntary matter. The depositor does not make deposits with a number of banks at random. He selects some single bank with which he opens an account. He should examine the character of the management, and advise himself of its manner of doing business. Intelligent criticism of this character is one of the very best safeguards of sound banking. The acceptance of a bank note is a different matter. The holder of the bank note has no opportunity to select the notes of any particular bank. He must accept or refuse the notes as offered him. He is an involuntary creditor. By usage he is called upon to accept in trade any bank notes offered without regard to the credit of the issuing bank. His responsibility is limited to the ability to distinguish a genuine bill from a counterfeit issue. The government has come to his aid in this particular by undertaking the printing of all bills issued, and by a highly organized secret service force has practically eliminated counterfeit issues.

The guarantee of bank notes differs from the proposed guarantee of bank deposits in another vital particular. The total liabilities assumed by the banks in jointly guaranteeing the bank notes issued by their respective clearing house associations would be limited in amount, and the liability would extend only to banks of their own locality, with whom they had entered a voluntary association, and with whose management they were duly conversant. The mutual guarantee of deposits would represent the involuntary assumption of liabilities, the possible volume of which staggers the

imagination. In the guarantee of bank notes, the issue is proposed to be made in limited volume and by selected banks. The guarantee of deposits represents the assumption of an illimitable liability, with no privilege on the part of the banks of making any selection of risks.

We cannot provide a proper bank note system and get entirely away from the human equation. We cannot construct a system absolutely automatic. Some final power, vested with final responsibility, subject to human judgment, must be available somewhere, or the system will break down at times. This final power we have found in the past in the United States Treasury. It was not designed to control the banking system. It was organized with an opposite purpose in view, of getting the government out of the banking business, and the fathers of the independent sub-treasury system little conceived that an emergency might ever arise under which the Treasury Department might be called upon to assume even a moral responsibility for the protection of the banking situation.

In practice, however, the Treasury Department has never been able to maintain an attitude of non-interference. The treasury, at times, acquires such excess of revenues that the withdrawal from circulation of the treasury holdings would prove a serious menace to business. On the other hand, in times of unreasonable and unreasoning financial disturbance, the pressure of public opinion has always prompted the Secretary of the Treasury to use the utmost resources of the government to assist in restoring financial order. The United States is the largest holder of cash in the world. It has larger cash revenues than any corporation in the United States. These possessions entail grave responsibilities, which cannot be ignored.

Thus, in practice, the Treasury Department and the banks have been compelled to co-operate in times of panic, and work hand in hand for the restoration of confidence. They co-operate clumsily for there is no statute law to assist them. The Treasury Department is not recognized by law to have any banking functions, yet at times it holds vast sums of government revenue, unused funds awaiting disbursement, in no wise differing from the deposit liabilities of the commercial banks, save that they are withdrawn from the channels of trade, and the commercial interests of the country are hampered by the withdrawal of hoarded money to the extent of the treasury holdings. The one appealing argument urged in favor of the Postal Savings Bank bill has been that the postal savings bank would bring

out of hiding considerable sums of money which is now being hoarded by timid people. The government has been the chief sinner in the matter of forcible and violent withdrawals of sums of actual cash from the channels of trade, and it may well set a good example to the nation by a change in its manner of handling its own revenues.

The Treasury Department is also charged with the responsibility of maintaining the redemption in coin of a vast volume of paper money. In fact the protection and maintenance of our gold holdings, a matter intimately connected with the questions of bank reserves and of the settlement of our foreign trade balances, is with us a distinctly treasury action. In all European countries these problems are assumed by the semi-governmental banks.

If the burden of the maintenance of cash payments is to be placed upon the banks, then the banks of the reserve cities, at least, being the banks which really carry the cash reserves of the country, should be given the liberty of using their undoubted credit and resources as a basis for the issue of a sufficient volume of notes, secured by clearing house certificates, to protect the nation from a currency famine. This was attempted in the Aldrich-Vreeland bill, but if this measure is to be permanently adopted, it should be revised in such manner that the banks may be permitted greater freedom of action.

If Congress or the people are unwilling to grant to the banks such note issuing power as may enable them to control the currency situation in time of panic, because of insistence that the power to coin money and to regulate the value thereof make it incumbent upon the government to furnish a supply of money adequate to the needs of the nation, then, our last resource is a semi-governmental bank of issue. The central bank idea has many advocates and many opponents. If the central bank is called into being, it will be compelled to exercise control not only over the available supply of cash reserves of the banks, but will be compelled to act as the final arbiter in the extension of credits, both in a banking sense and a commercial sense. When credits become greatly extended, the position of the central bank would not only be one of great responsibility, but also one of great power, both financial and moral. The chief objection which has been urged by the opponents of the central bank is that so great power over the money market should not be vested in any institution. The fear is expressed that the management

might at some time fall under the control of a single group of individuals, either of financial or political brotherhood, who might administer its affairs for their own personal aggrandizement.

The history of the first two banks of the United States has been pointed out as proof that any central bank organization in our country is a predestined failure. The comparison is unfortunate, but there is in fact no analogy between the United States banks of the earlier period and the proposed central bank of to-day. The first banks of the United States were direct and active competitors of the commercial banks of the period. The proposed central bank of this day would not be a competitor with the existing banks for commercial business. It would be a bank of banks, its ownership and control in the hands of the existing banks, but under quasi-governmental control. It would be the custodian of the final reserves of the banks, and would have in its control the reserve note issue power of the banks. It would have large responsibilities. The same responsibilities already exist, but rest upon the large aggregate number of existing banks. Each individual bank is apt, however, to treat his responsibility lightly, feeling perhaps that his small efforts to check a rising flood of speculation would have but little effect on the whole situation. Free banking advances personal aims only. We need some consolidation of existing banking responsibilities, in such manner as to recognize the claims of public duty.

The power to issue uncovered notes should be the last and final link in the line of reserves built up by the banks. The country banks make no attempt to carry the actual cash reserves necessary to be held against the enormous and growing mass of our bank book credits. Our reserves are concentrated at the money centers. Perhaps it is as well it should be so. There should be a gradual refining of credits from the small community on the outskirts of our commercial territory, through larger and larger centers of banking activity, until we come to the city whose wealth and banking power constitute it the financial center of the country. Here we expect to find credits more fluid and mobile, with a power of assimilation of all that is best of the financial offerings which, wherever they may originate, tend to draw upon this common center whenever the enterprise calls for the employment of other than local means.

The concentration of reserves has taken place as a natural evolution of banking. As the reserves have by common consent become

lodged in the larger money centers, the note issue power, which should be the last line in our defences, should be lodged in the banks of the large money centers. Being thus disposed, our reserves acquire greater mobility, for they may be promptly marshalled thence for the defence of any point which may for the time demand the use of unusual resources. Upon these money centers concentrates the demand for coin for export in payment of our foreign balances, for legal tenders to pay custom duties, for cash to move the cotton crop of the South, the wheat of the Middle West and the Northwest, and for any unusual call which may be occasioned at any time by any one of our manifold activities.

The maintenance of our banking reserves thus rests upon the banks of our larger money centers. The maintenance of reserves in banking is a vital matter. It has long been so understood by Congress, which requires the banks of the central reserve cities to maintain minimum reserves of actual cash in their vaults of twenty-five per cent of their deposits. No arbitrary rule will suffice however, to represent an adequate reserve. The demands upon it vary with the seasons, are strangely affected by foreign market conditions, by crop conditions, by frosts, floods, and earthquakes; by matters political, by labor conditions, and most of all by that mercurial and unmeasurable thing, public confidence or trust. The conservative banker must decide for himself, almost from day to day, revising constantly his views on the financial outlook, what minimum reserve is required. Even then his position is jeopardized, if the action of his neighbor is not governed by a policy equally sane and conservative. Competition is so strong among our banks, and the demand for a showing of earnings is so pressing upon our bank managers, that it would prove a real relief to many of them to relinquish in part the great responsibilities which the care of this reserve entails. With a central bank organized for the purpose, relieved by its charter from the strain for profits, and charged with an acknowledged responsibility for the management of our reserves, the maintenance of cash payments, and the redemption in gold of our paper money, our banking system would present a solidarity of organization, and an efficiency of action, which in the minds of many students of finance has been hitherto lacking.